

Message Text

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TO AMEMBASSY CAIRO

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TAGS: EFIN, EAID

SUBJ : FINANCIAL ADVISORY ASSISTANCE: MORGAN STANLEY

REFCAIRO 10483

1. DEPARTMENT CONTACTED JAN STENBECK, MORGAN STANLEY VP,
PER REQUEST REFTEL. STENBECK SAYS MORGAN STANLEY SENT
REPORT BY TELEX JULY 5 TO MINECON SHAFEL.

2. IN EVENT TELEX SOMEHOW SIDETRACKED AND NOT RECEIVED BY
MINECON, STENBECK HAS PROVIDED TEXT OF MESSAGE WHICH
FOLLOWS.

3. QUOTE. HIS EXCELLENCY MOHAMED ZAKI SHAFEL, MINISTER OF
ECONOMY AND ECONOMIC COOPERATION, CAIRO. YOUR EXCELLENCY,
WE HAVE JUST RETURNED TO PARIS AFTER DISCUSSIONS WITH
REPRESENTATIVES OF THE MINISTRY OF FINANCE OF THE KINGDOM
OF SAUDI ARABIA REGARDING THE ISSUANCE OF A GUARANTY FOR
BORROWING BY THE ARAB REPUBLIC OF EGYPT IN THE INTERNATIONAL-
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AL CAPITAL MARKETS. HIS EXCELLENCY, DR. MANSOUR

TURKI, DEPUTY MINISTER OF FINANCE, SAID THAT THEY WERE NOT PREPARED TO CONSIDER SUCH AN ACTION PRESENTLY. HE SAID THAT IN GENERAL, THEY HAD EXPECTED THIS TYPE OF ASSISTANCE FOR BORROWINGS BY EGYPT TO BE HANDLED BY THE JOINT FUND WITH KUWAIT, ABU DHABI AND QATAR. OUR GUARANTY PROPOSAL

ON YOUR BEHALF, THEREFORE, COULD NOT BE CONSIDERED SEPARATELY BEFORE THE JULY 17 MEETING OF THE MINISTERS OF FINANCE IN CAIRO. IN THIS CONTEXT IT BECAME CLEAR, AS YOU HAVE PREVIOUSLY INDICATED TO US, THAT SUBSTANTIAL MISUNDERSTANDINGS EXIST REGARDING THE POTENTIAL BORROWING POWER OF THE FUND. WE FELT SURE THAT AT LEAST SAUDI ARABIA AMONG THE CONTRIBUTING COUNTRIES BELIEVED THAT THE FUND WOULD BE ABLE TO BORROW SUBSTANTIAL AMOUNTS. WE STRESS THE FOLLOWING OPINIONS OF MORGAN STANLEY,

4. (1) EGYPT'S IMMEDIATE NEEDS ARE FOR FUNDS TO REPAY SHORT-TERM DEBT AND FINANCE THE CURRENT BALANCE OF PAYMENTS DEFICIT. FUNDS FOR PROJECT INVESTMENTS INVOLVE LEAD TIMES OF SEVERAL YEARS DUE TO TIME REQUIRED FOR PROJECT DEVELOPMENT AND CONSTRUCTION AND THEREFORE SHOULD BE SEEN AS A SEPARATE ISSUE.

5. (2) TOTAL DEBT PLUS PAID-IN CAPITAL OF THE NEW FUNDS WILL NOT BE ABLE TO EXCEED THE SUBSCRIBED CAPITAL OF DOLS TWO BILLION, UNLESS ADDITIONAL GUARANTEES OR SUBSCRIBED CAPITAL IN EXCESS OF THE DOLS TWO BILLION ARE MADE AVAILABLE BY THE CONTRIBUTING COUNTRIES. IN ADDITION, EVEN IN ORDER TO BORROW THE FULL INITIAL DIFFERENCE BETWEEN SUBSCRIBED AND PAID-IN CAPITAL, THE CHARTER AND BYLAWS, ESPECIALLY THE SUBSCRIPTION LANGUAGE, MUST BE CAREFULLY CONSTRUCTED.

6. (3) AT SOME TIME IN THE FUTURE, BORROWING BY THE FUND MIGHT BE POSSIBLE ON THE STRENGTH OF THE GENERAL CREDIT OF EGYPT, OR BY PLEDGING THE PROVEN FOREIGN EXCHANGE REVENUES OF MATURE PROJECT INVESTMENTS OF THE FUND. ON THE BASIS OF THESE DISCUSSIONS, WE BELIEVE EGYPT WILL NEED TO TAKE STEPS TO ESTABLISH A COMMON UNDERSTANDING OF WHAT THE NEW FUND IS EXPECTED TO, AND CAN, DO. IN ADDITION, THE CHARTER LIMITED OFFICIAL USE

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AND BYLAWS MUST BE CAREFULLY WRITTEN IN ACCORDANCE WITH INTERNATIONAL FINANCIAL PRACTICE TO ACHIEVE THE DESIRED GOALS.

7. MORGAN STANLEY AND COMPANY, INC. IS PREPARED TO ASSIST YOU IN THREE PRINCIPAL AREAS:

1. EXPLAINING THE POSSIBLE SCOPE OF THE FUND.

2. ADVISING ON THE DRAFTING OF THE CHARTER AND BYLAWS.

3. RAISING THE EXPECTED FINANCES.

8. WE ARE WILLING TO ATTEND THE MEETING OF JULY 17, OR
SUBSEQUENTLY TO ADVISE ANY WORKING GROUP OR COMMITTEE ES-
TABLISHED TO IMPLEMENT THE FUND IF WE ARE ASKED TO ACT IN
SUCH A GENERAL FINANCIAL ADVISORY ROLE.

9. IN THE INTERIM, WE WILL COMMUNICATE OUR OPINIONS AS
EXPRESSED ABOVE TO THE GOVERNMENTS OF KUWAIT AND ABU
DHABI. RESPECTFULLY, CHARLES O. SETHNESS, MANAGING
DIRECTOR, JAN H. STENBECK, VICE PRESIDENT, MORGAN STANLEY
AND COMPANY, INC. UNQUOTE.

10. EMBASSY MAY WISH TO ASCERTAIN IF TELEX RECEIVED BY
MINECON. IF NOT RECEIVED, EMBASSY MAY PASS TEXT OF MORGAN
STANLEY REPORT TO MINECON AND EXPRESS SINCERE REGRETS OF
MORGAN STANLEY FOR COMMUNICATION DIFFICULTIES AND RESULT-
ING DELAYS.

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